LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6662 **NOTE PREPARED:** Jan 10, 2007
BILL NUMBER: HB 1594 **BILL AMENDED:**

SUBJECT: Rental dwelling property tax deduction.

FIRST AUTHOR: Rep. Buell **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill establishes a property tax deduction for residential rental property. The bill specifies the deduction percentage for taxes payable in 2008 and 2009. It provides that the deduction for taxes payable after 2009 is based on deduction percentages set by the Department of Local Government Finance (DLGF) based on certain guidelines.

Effective Date: Upon passage.

Explanation of State Expenditures: For property taxes payable in 2010, the DLGF would be required to estimate the tax to assessed value (AV) ratio for rental units and for all dwellings. The DLGF would adjust the rental deduction amount as described in *Explanation of Local Revenues*.

The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. PTRC and homestead credits are paid from the Property Tax Replacement Fund.

Under this proposal and subject to appropriation, annual state PTRC and Homestead payments will be increased. The increase in state payments are estimated at $3.5 M in FY 2008 (partial year) and approximately $9 M in FY 2009. PTRC and homestead credits are paid from the Property Tax Replacement Fund.

Explanation of State Revenues: The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The reduction in state revenue under this bill is estimated at approximately $235,000 per year beginning in CY 2008.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits will increase by approximately $3 M in CY 2008. The increase in LOIT payments will reduce the amount of county homestead credits that are distributed to civil taxing units as certified shares.

Explanation of Local Revenues: Beginning with taxes payable in CY 2008 under this proposal, each building containing rental property would be eligible for a property tax deduction. The deduction would vary depending on the number of units in a building and would equal the following:

Buildings with less than 5 units: – The lesser of 50% of gross AV or $23,100 total;
Buildings with 5 to 8 units – The lesser of 50% of gross AV or $5,775 per unit;
Buildings with 9 to 20 units – The lesser of 50% of gross AV or $3,465 per unit; and
Buildings with more than 20 units – The lesser of 50% of gross AV or $2,310 per unit.

According to 2000 Census figures, there were about 238,000 single-unit rentals, 62,000 units in 2-unit buildings, 81,000 units in 3- or 4-unit buildings, 96,000 units in 5- to 9-unit buildings, 70,000 units in 10- to 19-unit buildings, and 91,000 units in buildings containing at least 20 dwellings. These counts provide an estimated total maximum statewide deduction of about $9.8 B, an estimate confirmed by an examination of 2003 parcel-level data. As a result, qualifying rental property owners would pay approximately $146 M less in taxes in CY 2008.

A reduction of the assessed value base causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. A $9.8 B reduction in AV would cause an estimated $0.064 increase in the statewide average net tax rate, causing a shift to other taxpayers of about $134 M per year beginning in CY 2008. This number is less than the $146 M in tax savings to rental property owners because the tax base for all other classes of property includes some property that qualify for homestead credits or school general fund PTRC. Rental property, on the other hand, comprise only non-homestead real property which do not qualify for these credits.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund.

For taxes payable after 2009, the deduction amount would be adjusted in each year in order to maintain the 2002 ratio of (1) gross tax per $1 of gross AV for principal rental dwellings to (2) gross tax per $1 of gross AV for all dwellings. This provision could result in a nominal increase or reduction in the rental dwelling deduction beginning in CY 2010. The deduction amounts allowed in this bill for 2008 and 2009 are based on 66% of the homestead standard deduction. As the deduction is increased, the gross tax per $1 of gross AV declines.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County and township assessors; County auditors.

Information Sources: Dataset: SF3, Tables H32, U.S. Census Bureau; Local Government Database; 2002 and 2003 parcel-level county auditor property tax data.

Fiscal Analyst: David Lusan, 317-232-9592.